

## Message Text

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ORIGIN ARA-14

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SP-02 LAB-04 SIL-01 OMB-01 DODE-00 PM-05 /062 R

DRAFTED BY ARA/AND:ASC FULLER  
APPROVED BY ARA/AND:MR BARNEBEY  
ARA:RGARELLANO (INFO)  
ARA/ECP:RTAYLOR (INFO)  
TREASURY - MR. MARESCA (INFO)  
COMMERCE/OIM - MR. LINDOW (INFO)  
EXIM - MR. KINGSLEY (INFO)  
DOD/ISA - COL. THOMAS (INFO)  
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TAGS: EFIN, MASS, PE

SUBJECT: PERU TRIES TO REASSURE COMMERCIAL BANKS

REF: LIMA 7011

SUMMARY - IN MEETING WITH NEW YORK BANKERS AUGUST 19,  
PERUVIANS REQUESTED ROLLOVER ON OUTSTANDING SHORT-TERM  
OBLIGATIONS FOR REST OF THIS YEAR. FEEL THEY HAVE ADEQUATE  
AUSTERITY PROGRAM IN PLACE AND WILL RESUME NEGOTIATIONS WITH  
FUND FOR STANDBY. STATED THAT NO NEW IMPORTS OF ARMAMENTS  
OTHER THAN WHAT ALREADY COMMITTED WILL TAKE PLACE THROUGH  
1978. WITH SOME \$611 MILLION REPORTEDLY EXPECTED TO COME  
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IN DURING SECOND SEMESTER 1977 FROM LONG-TERM CREDITS AND  
WITH ROLLOVERS ON SHORT-TERM OBLIGATIONS, PERUVIANS WILL NOT  
BE SEEKING BALANCE-OF-PAYMENT LOANS FROM BANKS UNTIL NEXT  
YEAR.

1. CITIBANK VICE PRESIDENT ROBERT PARRA PROVIDED PERU DESK  
WITH FOLLOWING INFORMATION CONCERNING MEETING (REFTEL)

BETWEEN PERUVIAN CENTRAL BANK TEAM AND LEAD BANKS OF U.S. SYNDICATE, IN NEW YORK AUGUST 19.

2. PERUVIAN CENTRAL BANK PRESIDENT DE LA MELENA STATED PERU HAD NO INTENTION TO DEFAULT ON OUTSTANDING OBLIGATIONS,

DECLARE A MORATORIUM ON DEBT PAYMENT, OR REQUEST A RE-SCHEDULING. PLEDGED THAT PERU WOULD MEET PAYMENTS DUE THIS YEAR (WITH SOME ASSISTANCE FROM ITS CREDITORS).

3. PERUVIANS FELT THEY HAD ADEQUATE AUSTERITY PROGRAM IN PLACE - ONE INDEED WHICH THEY SAID EXTENDED THE PIAZZA PLAN "A STEP OR TWO". ACKNOWLEDGED THAT FISCAL DEFICIT FOR 1977 WOULD BE AROUND 80 BILLION SOLES; OF THAT AMOUNT, 45 BILLION WOULD HAVE TO BE "FINANCED INTERNALLY". DE LA MELENA CLAIMED THAT IMF TARGET OF 20 BILLION SOLES DEFICIT DID NOT REFER TO OVERALL DEFICIT BUT ONLY TO THAT PART WHICH WOULD HAVE TO BE FINANCED. FIGURE RAISED TO RANGE OF 30-35 BILLION BY BARUA/PIAZZA; HOWEVER, IT HAS NOW BEEN DISCOVERED THAT THEY HAD OVERESTIMATED GOVERNMENT REVENUES BY 9 OR 10 BILLION SOLES. DEFICIT FINANCED WOULD HAVE TO BE AROUND 45 BILLION. THAT WAS ABSOLUTE MINIMUM.

4. PERUVIANS MAINTAINED THAT THEY RECOGNIZE EXCHANGE RATE WOULD HAVE TO BE REALISTIC, BUT WENT ON TO ARGUE PERU MUST BE ALLOWED ROOM TO DETERMINE TIMING AND MAGNITUDE OF LIMITED OFFICIAL USE

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FUTURE DEVALUATIONS. PERUVIANS GAVE NO HINT AS TO WHEN NEXT DEVALUATION MIGHT OCCUR, BUT INDICATED, TO DISMAY OF U.S. BANKERS, THAT DECISION WOULD BE BASED ON "POLITICAL" AS WELL AS ECONOMIC CONSIDERATIONS. PERUVIANS FEARED THAT IF THERE WERE A MAJOR DEVALUATION OF SOL THIS YEAR, OVERALL DEFICIT WOULD RISE AS HIGH AS 120 BILLION SOLES BECAUSE OF LARGE COMPONENT IN GOVERNMENT BUDGET OF EXTERNAL DEBT SERVICING. ON THE OTHER HAND, PERU RECOGNIZED THAT REALISTIC RATE OF EXCHANGE NECESSARY TO ENCOURAGE NON-TRADITIONAL EXPORTS. PERUVIANS DID NOT SPEAK TO POINT, BUT PARRA SUSPECTS GOP WILL GO FOR MULTI-TIER EXCHANGE RATE SYSTEM SHORTLY.

5. U.S. BANKERS RAISED QUESTION OF ARMAMENT PURCHASES AND WERE INFORMED GOP WOULD NOT REPEAT NOT IMPORT DURING THE REMAINDER OF 1977 AND THROUGHOUT 1978, NEW MILITARY EQUIPMENT BEYOND WHAT THEY ARE ALREADY COMMITTED TO BUY. NO ADDITIONAL OR REPLACEMENT EQUIPMENT WILL COME IN THROUGH 1978 - ONLY MUNITIONS AND SPARES. PERUVIANS REFUSED TO GIVE INFORMATION ON DOLLAR COST OF MILITARY IMPORTS.

6. PERUVIANS REVEALED THAT THEY WOULD NOT BE ASKING FOR EURODOLLAR BALANCE-OF-PAYMENTS LOAN FROM FOREIGN BANK SYNDICATES THIS YEAR. WHAT THEY WOULD ASK WAS SHORT-TERM ROLLOVERS. PERUVIANS EXPLAINED HOW THEY WOULD GET THROUGH YEAR WITHOUT BALPA BORROWING AS FOLLOWS:

A) \$300 MILLION IN SIGHT COLLECTIONS FOR THE REST OF THIS YEAR ARE NOW WITH BANKS IN LIMA, BUT LOCAL IMPORTERS CANNOT RAISE NECESSARY CREDIT IN SOLES TO UTILIZE. ONLY \$80 MILLION EXPECTED TO BE DRAWN DOWN. WITH INCREASE IN COMMERCIAL BANK RESERVE REQUIREMENTS, LENDING TO IMPORTERS HAS BEEN SEVERELY RESTRICTED, THOUGH SOME FACILITIES ARE BEING EXTENDED FOR IMPORTS WHICH WILL LATER INCREASE EXPORTS.

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B) SOME \$320 MILLION WORTH OF DOCUMENTARY COMMERCIAL CREDIT, BANKER ACCEPTANCES, AND OTHER SHORT-TERM CREDITS REMAIN AVAILABLE. FOREIGN BANKS ARE BEING ASKED TO MAINTAIN PRESENT LEVELS OF SHORT-TERM EXPOSURE (THROUGH ROLLOVERS).

C) FINALLY, \$100 MILLION IS OUTSTANDING IN THE SWAP AREA, FROM VENEZUELA AMONG OTHERS. ROLLOVERS WILL BE REQUESTED HERE ON A 180-DAY BASIS.

D) WITH RESPECT TO LONGER-TERM CREDITS, PICTURE PAINTED WHICH MUCH MORE FAVORABLE THAN U.S. BANKERS HAD THOUGHT. SOME \$211 MILLION ARE DUE IN INTEREST AND PRINCIPAL FOR REST OF YEAR. ON THE OTHER HAND, DURING SECOND SEMESTER, SOME \$611 RPT \$611 MILLION IS EXPECTED TO FLOW INTO COUNTRY FROM YET UNDISBURSED BI- AND MULTI-LATERAL LONG-TERM LOANS. NO BREAKDOWN ON THIS MASSIVE FLOW WAS PROVIDED, BUT PERUVIANS ASSERTED 90 PERCENT OF THIS AMOUNT WAS SIGNED FOR AND COMMITTED, ONLY 10 PERCENT REMAINED TO BE NEGOTIATED; OF THE COMMITTED PORTION, THREE-QUARTERS WAS FROM OLD LOANS AND ONE-QUARTER FROM NEW LOANS NOT YET INITIALLY DISBURSED. \$400 MILLION "SURPLUS" ON LONG-TERM SIDE PURPORTEDLY WILL ASSIST WITH RESPECT TO SHORT-FALL ON SHORT-TERM SIDE.

7. PERUVIANS INDICATED UNDERSTANDING THAT IT WAS CRITICAL THEY FIRST GET STANDBY FROM FUND. NEGOTIATIONS WILL BE REOPENED. WITH ROLLOVERS FROM THE COMMERCIAL BANKS, PERU HOPES THAT IMF STANDBY WILL BE SUFFICIENT TO SEE THEM THROUGH THIS YEAR. EARLY NEXT YEAR THEY PLAN TO MAKE APPROACH TO COMMERCIAL BANKS FOR BALANCE-OF-PAYMENTS LOAN.

8. U.S. BANKS NOW CONSIDERING PERUVIAN PROPOSAL. OUTSIDE LIMITED OFFICIAL USE

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OF QUESTIONING LONG-TERM CREDIT INFLOW FOR REST OF YEAR,  
PARRA DID NOT REACT ADVERSELY TO PERUVIAN PRESENTATION AND  
INDICATED THAT BANKS WOULD ATTEMPT TO BE HELPFUL. CHRISTOPHER

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## Message Attributes

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